



News or events that may affect your investments

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Mapping out the path of tariffs

Key takeaways

- The February 20 Supreme Court ruling against the bulk of the president's 2025 tariff increases has complicated, but not derailed, U.S. trade policy. The Trump administration is now relying on alternative trade statutes to replicate last year's tariff increases in a lumpy process that could take much of this year.
- Prospects for tariff refunds are highly uncertain, likely involving a slow-moving and complex claims process.¹ For now, we view immediate cash refunds as a low-probability event.

What it may mean for investors

- We think the average effective tariff rate² could trend slightly lower by year-end 2026, and we expect a more drawn-out, piecemeal approach to tariff implementation will mute its impact on inflation, business investment, and consumer spending this year.
- Although tariff-related headlines are set to ramp up again in the coming months, we remain focused on several clearly visible and likely persistent trends supporting our upbeat outlook for the economy and financial markets in 2026.

We continue to believe it is a matter of *how*, not *if*, President Trump will implement tariff increases. On February 20, the Supreme Court struck down as unconstitutional the bulk of last year's tariff increases implemented under emergency provisions.³ However, the administration has prepared for this and is now utilizing alternative trade legislation to replicate last year's tariff increases in a drawn-out process that could drag on much of this year.

Backup plan in motion

The president moved quickly to invoke Section 122 of the Trade Act of 1974 (which addresses significant balance-of-payments deficits), enacting an across-the-board, 10% levy that took effect February 24. This universal rate may rise to the maximum 15% level, according to President Trump, but only for 150 days under the law. This temporary patch essentially fills the void left by the loss of emergency tariffs. Even the use of this provision may face court challenges, though the short timeframe likely means the clock will run out before legal hurdles prevail.⁴

Investment and Insurance Products: > NOT FDIC Insured > NO Bank Guarantee > MAY Lose Value

1. "Importers Launch Tariff Refund Process After Supreme Court Win," Bloomberg, February 24, 2026.
2. Calculated as the total tariffs collected divided by the total value of imports, expressed as a percentage.
3. For more detail, see our February 20, 2026 Institute Alert, "Market react to Supreme Court tariff ruling."
4. "The New Trump Tariffs Are Also Unlawful," Cato Institute, February 24, 2026.
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This temporary surcharge (currently of 10%) does not apply to imports already subject to separate Section 232 (mainly product-specific) tariffs derived from the Trade Expansion Act of 1962, so the levies do not compound upon one another. The Section 122 duty also retains prior carveouts and exemptions, such as products from Canada and Mexico compliant with the United States-Mexico-Canada Agreement (USMCA). We note Section 122 levies could technically be extended beyond a July 24 expiration date but would require congressional approval. Inflation risks posed by elevated tariffs make extension highly unlikely, in our view, given recent pushback from lawmakers ahead of looming midterm elections, which are keyed to affordability as a major political issue.

Assessing near-term economic outlooks

In the near term, we view emerging-market economies as the main potential beneficiaries of the February 20 Supreme Court ruling against emergency tariffs. China, Brazil, India, South Africa, and countries in Southeast Asia all bore higher levies prior to the court decision. Canada and Mexico remain exempt from the temporary Section 122 universal rate. However, we expect President Trump to use tariffs as leverage in USMCA negotiations this summer or even in the event the talks are postponed to a later date. Conversely, Australia, Japan, and the U.K. now grapple with higher tariff rates than they previously negotiated. This increases the likelihood of fresh bilateral trade negotiations, in our view, that reverse some or all of those changes. In the meantime, a tariff reprieve, however temporary, is likely an added near-term tailwind supporting many emerging-market economies.

Charting the course for the next several months

We expect the administration to phase in more permanent tariff increases in the coming months using other trade statutes. We believe these efforts will heavily rely on Section 232 of the Trade Expansion Act of 1962 (restricting imports deemed a threat to U.S. security) and Section 301 of the Trade Act of 1974 (permitting retaliation against foreign-trade practices deemed discriminatory to U.S. commerce). These provisions are limited to piecemeal, country- and product-specific tariffs, often requiring lengthy investigations and comment periods preventing immediate increases. Another option is to increase tariffs in retaliation for discriminatory trade practices under Section 338 of the 1930 Smoot-Hawley Tariff Act, but that may face higher political and legal hurdles. Less discussed is a fourth option, Section 201 of the 1974 Trade Act, which allows the president to impose tariffs or other restrictions if a significant increase in imports is proven to harm domestic industries.

Section 232 (of the Trade Expansion Act of 1962) already accounted for most of last year's tariff increases outside emergency provisions reversed by the Supreme Court. These were mostly product-specific tariffs on steel and aluminum, autos, copper, and lumber, for example. Other products (like pharmaceuticals, critical minerals, and drones) remain under investigation by the U.S. Department of Commerce. So, the administration likely will lean on the Section 301 provision of the Trade Act of 1974 to ramp up country-by-country investigations over the next five months. Section 301 tariffs are not subject to any statutory rate cap, though they face a review period of up to four years. Investigations are already underway against China and Brazil, likely followed by an accelerated move toward others in the coming months.

Effective tariff rate may still trend lower despite gradual tariff increases

We think the average effective tariff rate could trend slightly lower by year-end 2026, even with new replacement tariffs, though the road may be bumpy. We believe tariff increases will be muted by piecemeal, drawn-out implementation and by stepped-up efforts among U.S. importers to minimize costs by rewiring supply chains through greater use of USMCA exemptions, for example. When the dust settles, we believe that a limited rise in tariffs should combine with rising imports in a growing U.S. economy to leave the year-end 2026 effective tariff

rate below an estimated rate of roughly 12% once Section 122 is fully implemented, down from approximately 13.6% before the Supreme Court ruling invalidated the emergency tariffs.⁵

Full, immediate tariff refunds seem unlikely

The question of tariff refunds has been left to the lower courts and remains highly uncertain, likely involving a slow-moving and complex claims process that could play out over the course of years. We now view full, immediate cash refunds of up to \$170 billion by one estimate⁶ as a low-probability event, though any U.S. businesses able to recoup tariff rebates could benefit. Small businesses may be at a disadvantage because many lack the resources to file suit. Further, smaller firms typically purchase from wholesalers that would be documented as the importers of record and would be eligible for any direct rebates. If full refunds are eventually required, the U.S. government ultimately could opt for less cumbersome and more orderly reimbursement to importers, with credits toward future import tariffs rather than with cash. For now, we prefer investors avoid getting lost in the minutia of tariff legislation given our view that an economic impact is likely to be limited by the administration's preference to slow-walk the refund process through the legal system. For this reason, we do not expect that refunds would significantly widen the federal budget deficit.

What it may mean for investors

We remain focused on the big picture: a drawn-out, more sporadic application of tariffs amid our expectations for healthy U.S. economic growth. We believe a more piecemeal approach to tariff implementation will mute its impact on inflation, business investment, and consumer spending this year. In our view, investors should brace for another burst of tariff-related headlines in the coming months but not let day-to-day news distract from several clearly visible and likely persistent trends that support our upbeat outlook for economic and earnings growth in 2026.

Tax refunds are ramping up, poised to accelerate consumer spending, in our view, while the lagged effect of lower short-term interest rates is contributing to green shoots in credit-sensitive sectors like housing and manufacturing. Other cyclical pockets of the economy (such as the Energy, Materials, and Industrials S&P 500 sectors along with transportation and semiconductor stocks) have outperformed year to date as of March 3, 2026 as more generous corporate tax policy has likely reinforced broadening strength beyond tech-related investment spending. We look for productivity gains and deregulation to contribute to greater efficiencies, reduce costs of doing business, while the labor market has shown signs of stabilization. Additionally, we think inflation will remain subdued, reinforced by our expectation for a gradual replacement of tariffs in the coming months. In our view, the collective impact of these strengths will likely underpin economic and earnings growth this year.

Therefore, we suggest investors consider market pullbacks to rebalance portfolios and incrementally add exposure to our favored asset classes and equity sectors. We favor U.S. Large and Mid Cap Equities but would restore international allocations to their strategic target levels, especially Emerging Market Equities. Within the S&P 500 Index sectors, we prefer Financials, Industrials, and Utilities. In fixed income, we believe that long-term bond yields will rise as the year progresses, but mainly because of our expectation for economic improvement, not for reasons related to tariffs. We prefer high-quality, investment-grade corporate bonds with maturities between three and seven years.

5. Based on estimates from Bloomberg Economics, "Global React: Trump Tariffs Down to Lowest Since April 2025," Bloomberg, February 23, 2026.

6. "Tariff Ruling Kicks Off Fight Over \$170 Billion in Refunds," Bloomberg, February 20, 2026.

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